

**Income Maintenance Advisory Committee  
Department of Health and Family Services  
Division of Health Care Financing  
July 17, 2003  
\*Minutes\***

County Attendees: **Ed Kamin**, Co-Chair, Kenosha Co. DHS; **Shirley Ross**, LaCrosse Co.; **Jackie Bennett**, Racine Co. HSD; **Liz Green**, Dane Co. DHS; **John Rathman**, Outagamie Co.; **Sheryl Siegl**, Winnebago Co. DHS; **Sue Schmitz**, Waukesha Co.; **Joanne Faber**, Washington Co.; **Michael Poma**, Milwaukee Co.; **Felice Riley**, Milwaukee Co.; **Lynn Brenner**, Calumet Co.; **Connie Hendries**, Manitowoc Co.; **Jane Huebsch**, Marathon Co.; **Deb Hughes**, SW Consortium; **Doreen Lang**, Wood Co.; **Bob Macaux**, Florence Co.; **Terri Rapp**, Wood Co.; **Cindy Sutton**, Rock Co.

State Attendees: **Helene Nelson**, Secretary, DHFS; **Peggy Handrich**, DHFS/DHCF; **Susan Wood**, DHFS/DHCF/BIMA; **Jim Jones**, DHFS/DHCF/BHCE; **Rick Zynda**, DHFS/DHCF/BIMA; **Sara Edmonds**, DHFS/DHCF/BIMA; **Scott Riedasch**, DHFS/DHCF/BHCE; **Essie Herron**, DHFS/DHCF/BIMA, Milwaukee Region; **John Haine**, DHFS/DHCF/BIMA; **Vicki Jessup**, DHFS/DHCF/BIMA; **Joanne Simpson**, DHFS/DHCF/BIMA; **Brian Fangmeier**, DHFS/DHCF/BIMA; **Amy Mendel-Clemens**, DHFS/DHCF/BHCE; **Lisa Hanson**, DHFS/DHCF/BHCE; **Mike McKenzie**, DHFS/DHCF/BHCE, **Bob Martin**, DHFS/DHCF; **Pam Lohaus**, DHFS/DHCF; **Janice Tripp**, DHFS/DHCF;

**IM program Goals w/ DHFS Secretary Helene Nelson:**

Secretary Nelson stated that DHFS is glad to have the Food Stamp program back in the Department. She acknowledged the need to refurbish the program and that the Department is committed to addressing access and accuracy issues.. The state and counties need to work together to determine how to improve the program within the current financial situation of state government..

Members of the committee discussed IM goals with Secretary Nelson. She asked for suggestions and comments and received many, including:

- The importance of a good relationship between DWD and DHFS – and that local agencies note recent improvements and appreciate the commitment of both Secretaries to this – and hope that this message will be carried through the organization to line staff as well.
- Random Moment Time Study – and the difficulties in implementing RMS in WI.
- There was a suggestion to transfer the Child Care Program to DHFS in order to streamline processing. Secretary Nelson remarked that in her view what is important is how the program is delivered at the local level rather than which state administers it.
- There was a discussion about embracing technology to handle the workload resulting from increased caseloads, without losing the customer service in place now. Susan Wood emphasized the need to focus on improving customer service during these times of budget constraints.
- Suggestions to leverage county dollars to claim federal funds to support IM functions.
- Training is also helping new workers. There were suggestions to continue to restructure how training is provided, to try to keep it local when possible, and reduce the training times. For example, consider defining specific job concepts and training for those specific job concepts.
- Interrelationship of the IM and employment programs and how they come together at the local level, and the impact changes in one program have on all the others.

### **Food Stamp Participation Grant:**

See Power Point Presentation in the future projects portion of the IMAC website.

Some new names have been proposed for the Food Stamp program; focus groups are being held, and results will be brought back to the IMAC for further discussion.

The IMAC Program Policy and Communication Subserve as the advisory committee to the Department on this grant as well as waiver ideas for increasing the FS participation of SSI recipients .

### **Food Stamp Payment Accuracy:**

Handouts (attached) were distributed with just brief discussion due to time constraints. This will be one of the main topics for discussion at the next meeting.

### **Change Center Models:**

See handout below

**IM Contracts for 2004:**

Only technical changes will be made to the contract language for 2004. If and when there is agreement about new penalty and bonus language, it can be added via a contract addendum.

**Administrative Items:**

June minutes were approved.

August meeting has been canceled.

A chart of unduplicated MA & FS cases overlayed with the error rate, was requested for the next meeting.

Possible agenda items for September:

- ◆ Error rate update
- ◆ Payment Accuracy
- ◆ Change centers, including state models
- ◆ Status of work on initiatives to reduce local agency workload.

<u>WAGES AND SALARIES</u>	<u>FFY 02 - 49% FFY 03 -</u>				
Simplified definition of income	Reduce the types of income that must be reported and verified. (B)	Sara	1/1/03	Exclude student financial aid as of 01/03	01/03
Simplified definition of income	Could allow us to align with MA in some cases (B)	Sara/ John L.		Waiting for MA response on what other sources of income could be excluded per section 1931 of MA regs	
Milwaukee Change Center	Quicker access for customers to report changes. Reduce client failure to report as well as worker failure to act due to workload issues. (B)	Lisa	11/01	Relocated to Schlitz Park 11/02 Fully operational again 05/03 <b>Is CC taking all changes?</b> <b>Schedule visit to Milw</b>	
Dane Change Center	Same (B)	Lisa	02/03	Fully operational. Take all changes for agency. Dane feels it has very positive impact on workload reduction	
LaCrosse Change Center	Same	Lisa	08/03	Plan to be fully operational 08/01/03. Will take all changes for agency.	
Auto calculation of income (New CARES screen AFWG)	Workers can enter specific income information, CARES will calculate. (B)	Donna	06/03	New screen available in CARES to support prospective budgeting policy. New income verification code added to encourage use of last 30 days pay stubs to verify wages.	Ops memo published 6/17/03 Moved into production 6/20/03.
Mini Driver Flows	Workers will no longer have to "hunt" for the screens that need to be updated when acting on a specific type of change. (A)	Donna	06/03	Ops memo published 6/17/03 Moved into production 6/20/03.	06/03
Reduced Reporting	Reduces the changes customers are required to report. Anticipated reduction in client "failure to report" errors. (C)	Sara	Three phases 1 <sup>st</sup> phase 07/03	Implementation date 07/26/03	
Application Processing Training	Provide training to workers to help ensure correct case processing at intake, review, and reported change. (A)	Theresa	Aug-Sept '03	Dave Turk developing curriculum. Won't be mandatory. Will be web-based.	
Transitional FS Benefits	Provide "frozen" FS allotment to families transitioning from welfare to work during the 1 <sup>st</sup> five	Jayne	10/03	Issue Paper has been developed. Currently being reviewed by AO. This is on the CARES calendar and our IM	

	months following the loss of W2 cash payment. This period of time can be very error prone due to fluctuating income. (A)			Workload Reduction list.	
Statement on CAF that customers must report a decrease in income to receive more benefits	Reduces customer failure to report errors. (C)	Sara	Manual CAF 01/03 CARES CAF 05/03	Still waiting for Steve P. to have Spanish translation done. Will invite Carol Cole (who handles translation requests) to next FS Issues meeting.	
9 to 5...Not! Training follow up labs	Consistent processing of earned income cases with fluctuating income. (A)	Staci	05/03	First lab conducted on 5/22/03. Feedback from local agencies has been excellent.	Ongoing
Auto update of New Hire info					
<b>CHILD SUPPORT</b>	<u>FFY 02 - 8% FFY 03 -</u>				
KIDS to CARES to case comments	CS Training to ensure consistent process and reduce errors. (A)	Staci	10/1/02	Ongoing class. <b>Should training materials be re-reviewed in light of reduced reporting?</b>	
Auto population of CS income	Reduce worker errors. (A)	Donna	7/1/04	Part of reinvestment plan VII	
<b>HH COMPOSITION</b>	<u>FFY 02 – 7% FFY 03 -</u>				
Request for contact field on ACCH	When a worker receives unclear information on a case, they can generate a letter to a client requesting them to contact the agency. For example, person reported as being in the home. (B)	Jeff	03/21/03	Done. Ops memo 03-20.  <u>Any feedback so far?</u>	03/03
Mini driver flow	Workers will no longer have to “hunt” for the screens that need to be updated when acting on a specific type of change. (A)	Donna	06/03	Ops memo published 6/17/03 Moved into production 6/20/03.	06/03
Student eligibility policy clarification and CARES screen ANSE enhancements	Provides more clear and specific policy guidance in FSH and CARES to determine correct eligibility for students in institutions of higher education (A)	Sara	03/03	Went in with March moves. Operations memo 03-22	03/03

<b>SHELTER DEDUCTION</b>	<b>FFY 02 - FFY 03 -</b>				
<b>Move the sub-housing question to AFSC</b>	Reduce errors related to not accounting for reduced rent as a result of a housing subsidy (A)	Sara	ASAP	PCR requested 04/03 <u>PCR created?</u>	
Mini driver flow	Workers will no longer have to "hunt" for the screens that need to be updated when acting on a specific type of change. (A)	Donna	06/03	Ops memo published 6/17/03 Moved into production 6/20/03.	06/03
<b>SUA</b>	<b>FFY 02 - FFY 03 -</b>				
Mandatory SUA	Allows us to take advantage of the benefits of FB provision 4104 – Simplified Utility Allowance. Mandatory standards are less error prone than actual expenses	Jeff	10/02		10/02
Simplified Utility Allowance	Eliminates the requirement to prorate the SUA when households share living quarters or a meter (A)	Jeff	10/02		10/02
<b>SSI</b>	<b>FFY 02 – 6% FFY 03 -</b>				
Auto Update of SSI	SSI eligibility and payment information is gathered from SDX files and auto-updated on the appropriate CARES screens when a change occurs. Reduce worker errors due to failure to act on changes reported through DX (A)	Sara	01/03	Eligibility and confirmation are automated at adverse action. Worker intervention is rarely required. Glitches discovered following implementation related to State SSI payments have been fixed as of 05/03	01/03
<b>RSDI</b>	<b>FFY 02 - FFY 03 -</b>				
Auto Update of RSDI income	Workers will not be required to take action on data exchanges from this source. Will also eliminate the need for the annual COLA update. (A)	Lisa	07/04	No work scheduled yet.	

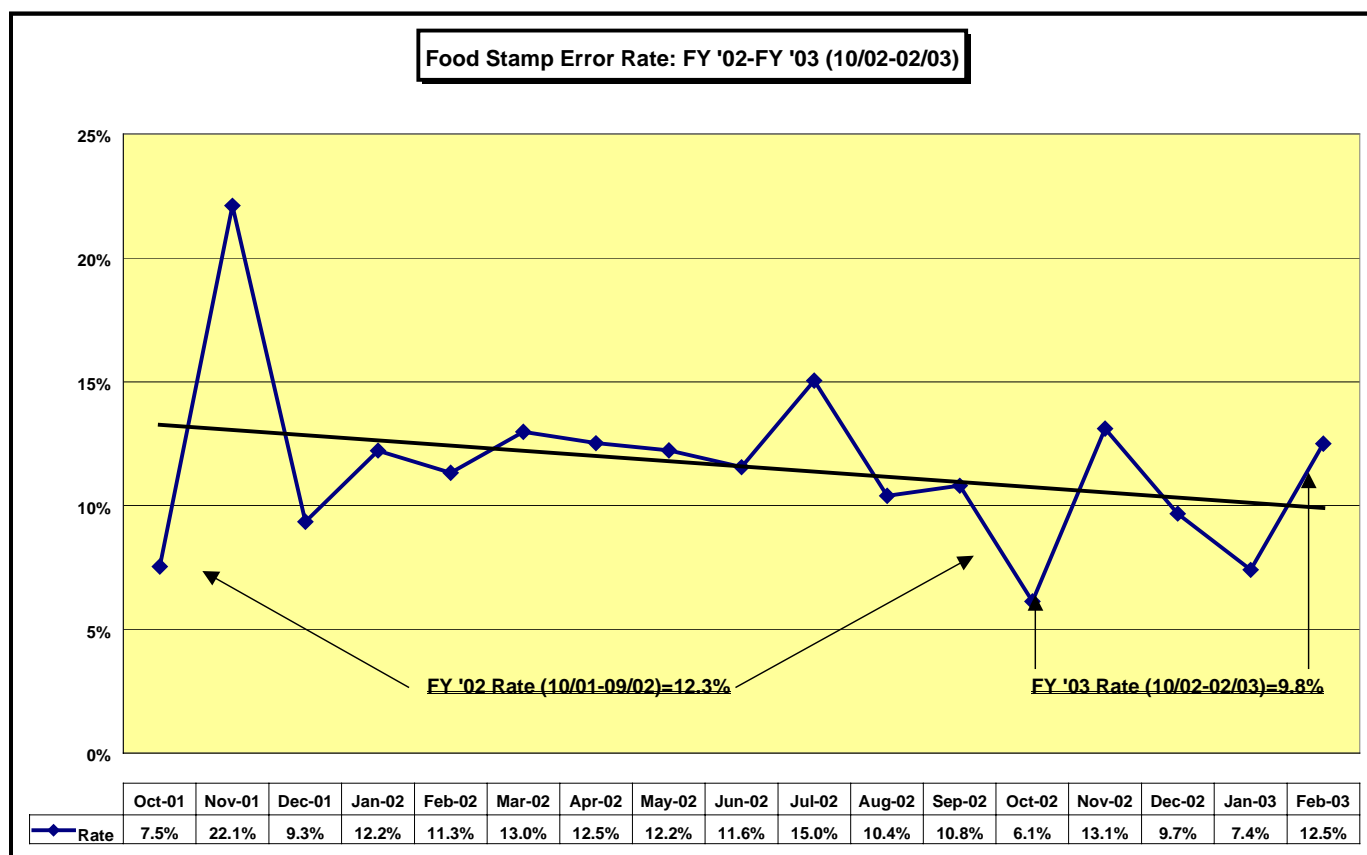
<b>TANF</b>	<b>FFY 02 – 4% FFY 03 -</b>				
W2 monthly exception report	Reports sent monthly to agencies identifying W2 companion case situations (A)	Sara	09/02-05/03	Milwaukee maintained responsibility for completing their report. PAC staff completed the reports for balance of state.	05/03
W2 Companion Case Alert	Alert to be sent monthly to workers identifying W2 companion case situations. (A)	Sara	05/03	Moved in May Operations Memo on new alerts <u>Feedback on impact?</u>	05/03
Auto SFEX/confirmation trigger at AA for W2/FS cases	To address the 2-worker model (Milwaukee) where W2 and FS exist on the same case and W2 worker confirms W2 eligibility, but FS worker does not confirm Fs benefit. These cases will automatically run through eligibility and confirm at adverse action (A)	Sara	05/03	Moved in May Operations Memo on new alerts <u>Feedback on impact?</u>	05/03
<b>FSET</b>	<b>FFY 02 - FFY 03 -</b>				
ABAWD Waiver	Waiver requested to exempt ABAWDs from time-limited eligibility work requirements(A)	Sara	4/1/03	Approved by FNS. Backdated to 4/1	05/03
IM/W2/CC coordination sub-committee	Project underway to improve FSET process for ES and FSET workers and FSET participants (B)	Sara	Ongoing		
<u>Add AIWS to Driver Flow</u>	Eliminates incorrect disqualifications from FSET Could impact HH comp. Errors. (A)	Sara	New request		
<u>Automate FSET Sanction letter</u>	Eliminates incorrect disqualifications from FSET Will reduce FH requests (B)	Sara	New request		
<b>ARITHMETIC COMP.</b>	<b>FFY 02 – 4% FFY 03 -</b>				
AFWG income calculator	Provide CARES screen to better support prospective budgeting policy and encourage workers to gather last 30 days wage verification		06/03		
<b>MULTIPLE IMPACT</b>					
Scanning/Online filing	Reduce paperwork	Jim J.	Not scheduled	Reinvestment plan VII	

	Reduce incidents of lost files Easier to transfer cases (B)				
Local Agency Error Reduction Grants	Allows agencies to tailor error reduction initiatives specific to their agency/region (A)	Lisa	Ongoing	Reinvestment plan	
Program Improvement Consultant	Reinvestment project management Local agency liaison	Lisa			
Alerts Reengineering	Help Screen Enhancements Long text for each alert in CARES (A)	Jeff		60 of 350 Alerts have help screen text so far. Being added as “approved.”	
DX Reengineering	DX dispositions generated only when action could result in significant change to eligibility or benefits (A)	Sara	Ongoing		
Second Party Review Training	How to do them, what to target. Done by PACs upon request now. (A)				
Second Party Review Automation	Web-based tool for logging results of SPRs. Reports can be used by agencies to track trends. (A)				
Performance Incentives/Penalties	Share both penalties and bonuses from the new performance measurement areas in FSP. (B)				
Simplified definition of resources	Exclude real property and eliminate verification requirement unless reported assets are questionable. (B)	Sara	05/03	Provides reduced verification requirements for clients; reduces processing time for ES workers	05/03
Auto Update of UI	Under construction.		09/03	Alternative could include enhancement of the UC data exchange information provided to workers. Information could be provided or auto-updated only at certification (intake) and recertification (review) when it would be beneficial for payment accuracy and customer service.	
Payment Accuracy Consultants	Technical Assistance Mini Trainings SPR assistance/training (A)				
<b>Letter/Admin memo about focus on accuracy and access</b>					



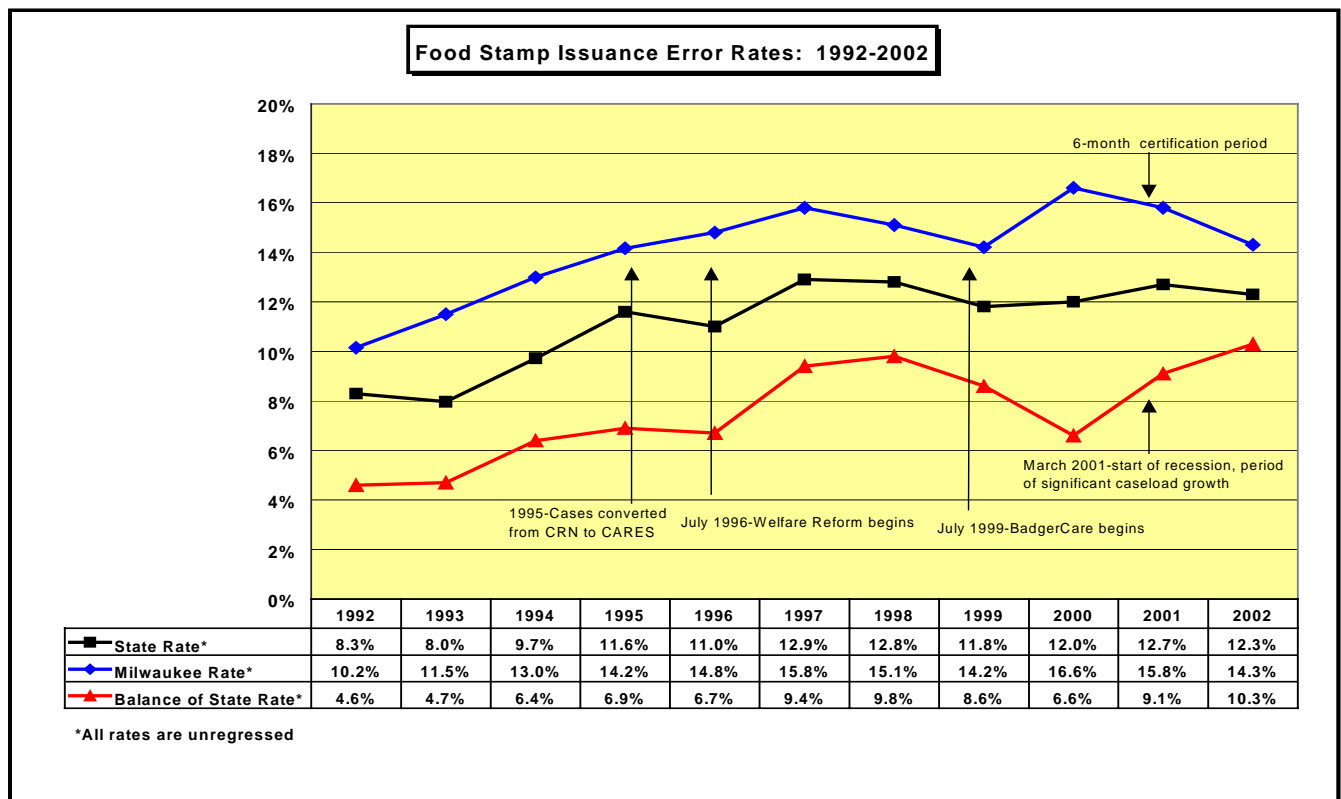
<b>Letter from Secretary Nelson to all ES regarding accuracy and access</b>	Stress the urgency of achieving FSP payment accuracy from the top down	Cheryl	07/03	Copy of final letter signed, and being scanned for electronic transmittal.	
<b>State staff person calling workers about errors</b>					
<b>Follow up with other successful strategies that worked in NY and CA</b>					

## Food Stamp Program Payment Accuracy Status Report



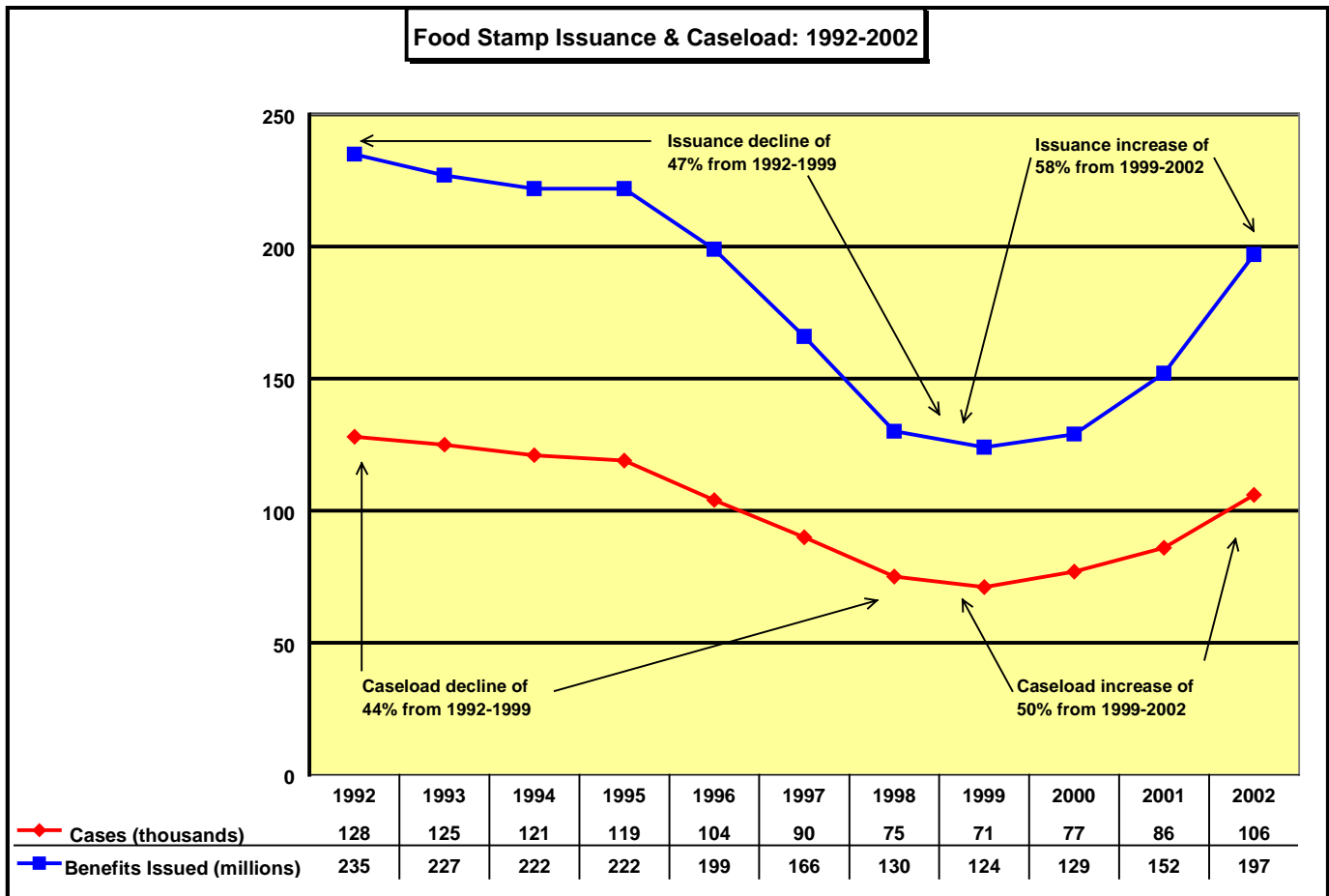
1. The regressed FY '02 (to account for federal sub-sample reviews) is 12.69%. The regressed rate for FY'01 is 13.14%.
2. The federal tolerance level for FY'02 is 8.26%, lower than FY '01, which is 8.66%.
3. The FY '03 rate is currently 9.8%, which is 2.5% lower than last year.
4. Corrective action strategies in place for FY'03 include:
  - Change reporting option for clients, who will not be required to report case changes except when eligibility is affected. This change will impact our single largest cause of Food Stamp error, client failure to report case changes. We anticipate a 3% reduction in our payment error rate as a result of this change.
  - Change center implementation in five agencies, including Milwaukee. This corrective action will impact our second largest cause of Food Stamp error, worker failure to act on reported changes. We anticipate a 2% reduction in our payment error rate as a result of this change.
  - CARES changes to automate functions and reduce workload including: SSI auto-update, mini-driver flows, Food Stamp data exchange enhancements, fixes to W-2 income and categorical eligibility, alerts redesign, Food Stamp pre-printed review form, online case directory.

## Food Stamp Program Error Rate Summary



1. Wisconsin was not in sanction status in the early 1990s.
2. Conversion of the eligibility and issuance system in 1995 from CRN to CARES created a learning curve and resulted in higher Food Stamp payment errors.
3. At the same time as CARES implementation, welfare reform initiatives (Learnfare, Pay for Performance, etc) shifted management attention from Food Stamp issuance and payment accuracy.
4. Six regions were created with W-2 implementation in Milwaukee resulting in complicated and error-prone Food Stamp case processing and case management systems.
5. Implementation of 3-month certification periods doubled case processing time. This policy was changed in 2001 and Wisconsin went back to 6-month certification periods for Food Stamps and a 12-month certification period for Medicaid.
6. The implementation of BadgerCare in 1999 created dramatic caseload growth in Medicaid and Food Stamps and increased workload.

## Caseload and Issuance Status



1. The caseload for May 2003 = 121,425 (300,987 individuals).
2. The caseload increase for 1 year (May 2002-May 2003) = 13.2%.
3. From July 1999 to May 2003 the Food Stamp caseload has increased by over 50,000 cases, a 50% increase.
4. Issuance for May 2003 = \$20,271,944.
5. The issuance increase for 1 year (May 2002-May 2003) = 20.7%.
6. From July of 1999 Food Stamp monthly issuance has nearly doubled.

<b>Topic</b>	<u>Milwaukee</u>	<u>Dane</u>	<u>Washington</u>	<u>Outagamie</u>	<u>LaCrosse</u>
Implementation date (or estimated date)	January 2002	February 2003	January 20, 2003 Start Date	Tentative Start Date First Quarter of CY2004	August 1, 2003
Start Up Costs? (Funding Source)	\$550,000 in FS reinvestment funds	\$20,000 in FS reinvestment funds were used to buy a 7- line call sequencer, wiring and infrastructure for the Change Center (walls, chairs, etc.)	\$0	Purchasing fax machine, headsets, IVR (interactive voice response) and ACD software to interface KIDS and CARES with telephone system	Up to \$23,000 in FS reinvestment funds....phones, computers, fax, IT costs, furniture, construction, etc.
Who does the changes?	Milwaukee hired Quality Assurance Technicians (who are one grade above their regular economic support specialists).  They also hired 4 full- time clerical staff.	Regular economic support specialists And one ½ time clerical support person.	Clerical answers phone calls, takes information, completes manual change form and gives to ES worker. ES worker enters information in CARES.	Experienced ES Specialists (unsure of how much time will be spent, but no more than 50%)	ES Specialists
What do they do? (enter address changes, enter other changes, send verification documents, receive verification documents, enter verification codes, run eligibility, confirm eligibility)	QATs enter changes for cases in on-going mode. They send verifications, receive verifications, enter information into CARES, run & confirm eligibility. They do not enter medical bills for MA deductibles and they do not open new programs.  The clerical staff receives and sends	All Changes (not reviews or intakes). They send verifications, receive verifications, enter information into CARES, run & confirm eligibility.  They do not do backdates, net requests or enter bills for deductibles.	Clerical provides information to client regarding what, if any, verification is needed and 10 day time frame.	All Changes (not reviews or intakes). They send verifications, receive verifications, enter information into CARES, run & confirm eligibility.  They do not do backdates, net requests or enter bills for deductibles.	All changes. Send for verification, enter information into CARES, confirm eligibility

	<p>faxes to W2 agencies and employers. They also handle general clerical tasks and update the paper case files.</p>				
<p>What kind of experience and training do they receive?</p>	<p>Regular ESS Training plus 3 years ES experience and pass a special QAT test. They receive additional training through Milwaukee staff development.</p>	<p>Regular ESS training. Must have at least 2 years of ES experience.</p>	<p>In-house staff training, meetings to discuss problems, issues, etc.</p>		<p>Mandated ES new worker training, all other ongoing and new ES policy training In-house training specific to change center activities</p>
<p>Special Requirements? (bilingual, TTD, supervisor with special skills)</p>			<p>None</p>		
<p>What is their pay range?</p>			<p>\$9.50 - \$12.51</p>		<p>\$13 to \$15 an hour</p>
<p>How many hours per week do they work in the Change Center?</p>	<p>The QATs and the clerical staff are all full-time on the Change Center.</p>	<p>These workers are ½ time on the Change Center and also handle a reduced caseload.</p>	<p>Change Center operates 40 hours per week. 4 staff rotate each taking 1 8 hr. day. 2 staff split 1 day – each taking 4 hr. shift.</p>		<p>½ time in the Change Center and reduced caseload</p>
<p>Did you use special software? If so, what was the name of the software? What does it do? How much did it cost?</p>	<p>Yes. Using FS reinvestment funds purchased Apropos. This software / hardware connects incoming phone calls with CARES so that</p>	<p>Created an MS Access database for tracking purposes.</p>	<p>N/A</p>		<p>Using ACCESS database that Dane County shared with us.</p>

	the client's record displays at the time the call is answered.				
	More?				
Volume How many calls are received? Answered? Average Length? How many are changes?	6,000 / month	200/day (1,000/week)	We have been averaging about 65 calls per month, all of which are answered or referred the same day.	150 calls / day (750/week)	N/A (not started yet)
Number of Changes Processed	4,000 /month		Varies. Average 10-20 calls per week.		N/A
How many Change Center workers are there vs. how many IM workers in your agency?			6 Change Center staff  10 utilize center 17 ES staff total		5/24
Average Caseload/Worker (of those workers whose changes are being processed by the Change Center)		350/worker 100 for Change Center workers	250	300/worker (now, but will increase when Change Center is implemented)	250 Family 350 EBD 400 Nursing Home
How many IM cases are currently active in your county?					5284

<p>Marketing: How did you (or do you) let recipients know that they should call the Change Center and not their worker?</p>	<p>Providing a handout on the Change Center with all new applications and at review.</p> <p>Handed out refrigerator magnets (while they lasted) with the Change Center's number.</p> <p>All workers' voice mail now directs changes to the Change Center.</p>	<p>Hand out static cling cards &amp; refrigerator magnets with Change Center's number</p> <p>All workers' business cards now have the Change Center message printed on the back.</p> <p>Placed signs about the Change Center in the lobby and a poster in each workers' cubicle.</p> <p>Added a dedicated Change Center telephone to the lobby.</p> <p>Added message to voice mail recording about the Change Center for all workers.</p> <p>Mass mailing in January 2003 about the Change Center and new change reporting process.</p>	<p>Business cards and discussion with worker posters</p>	<p>Flyers, Business Cards and possibly a mass mailing</p>	<p>Workers have been handing out flyers to all customers as are the receptionists. All workers have the flyers in their offices. We have provided flyers to be posted and handed out at community sites.</p> <p>Flyers are being included along with anything sent to customers.</p> <p>Business cards have the same Change Center message printed on the back as Dane County(again, Dane county shared this with LAX)</p> <p>Dedicated Change Center telephone in the lobby</p> <p>Messages on voice mail directing changes to go to change center and zero out option to Change Center</p>
<p>Outcomes: Error Rate Change Average Caseload Change/Worker Estimated Time Saved for Workers</p>			<p>Too soon to access error rate impact.</p> <p>Estimated time saved is average 10 minute per phone call.</p>	<p>Hope to further decrease error rate (currently less than 2% according to PAC review), increase customer service and satisfaction.</p>	<p>N/A</p>



with Caseloads					
Other Comments			ES & clerical workers adapted to this change easily. Clients are having a more difficult time adjusting, many still call the worker directly. We are considering changing the phone number that appears on the Notice of Decision.		Very excited about implementation after visiting Dane County's Change Center.

*Revised July 8, 2003*

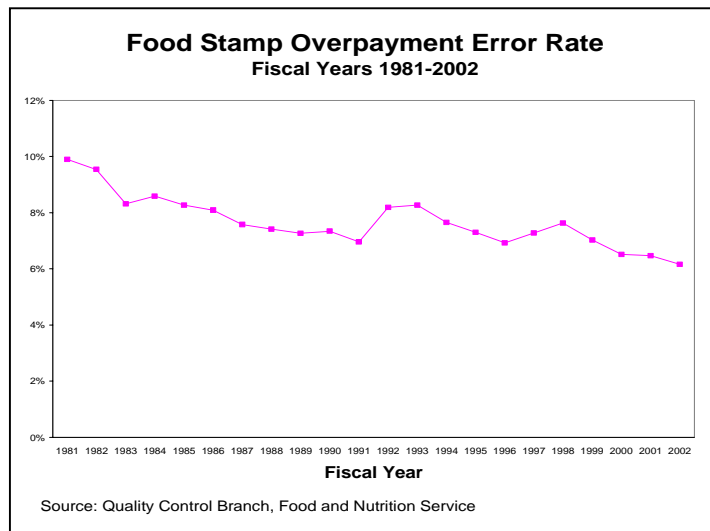
## FOOD STAMP OVERPAYMENT ERROR RATE HITS RECORD LOW

On June 27, the U.S. Department of Agriculture (USDA) released state and national food stamp error rates for federal fiscal year 2002 calculated through the food stamp quality control (QC) system. The national overpayment error rate — the percentage of food stamp benefit dollars issued in excess of the amounts for which households are eligible — fell by a third of a percentage point from 2001 levels to 6.16 percent, the lowest level since USDA began the current system of measuring error rates in 1981. The underpayment error rate fell to 2.1 percent, also the lowest level on record. The combined payment error rate, which is calculated by summing the overpayment and underpayment error rates, fell to an all-time low of 8.26 percent.

Nonetheless, the number of states subject to fiscal penalties based on their error rates *rose* from fifteen to twenty. This is because the food stamp QC sanction system for 2002 measures states' performance relative to the national average, ensuring that large numbers of states will be subject to sanctions even when overall performance among the states improves.

In May 2002, as part of the nutrition title of the farm bill, the President signed legislation that changes the system for assessing fiscal sanctions against states, beginning with the 2003 error rates. The new system will focus monetary penalties on the few states with persistently high error rates instead of on a large number of states with minor problems. This reform of the QC sanction system should lessen the pressure that states feel to adopt policies that impede access to the Food Stamp Program. The QC system nonetheless will remain the most sophisticated system for measuring payment accuracy in any major federal public benefit program and will continue to be a critical tool for measuring and monitoring state stewardship of federal food stamp funds.

USDA also released states' error rates for cases in which they denied or terminated benefits. (The underpayment error rate includes only cases where states gave some benefits, but not as much as the household should have received under food stamp rules. It does not include actions that completely denied food stamps to eligible low-income households.) Nationally, in about eight percent of the instances in which households were denied food stamps or terminated



from the Program, the action was found to be in error.<sup>1</sup> USDA did not attempt to calculate the amount of benefits that these improperly denied households would have received. As a result, this “negative error rate” is not directly comparable to the overpayment and underpayment error rates, but is instead a less rigorous measure of whether the state followed the proper procedures. Nonetheless, improper denials and terminations result in significant, if unintended, savings to the Program.

Although food stamp error rates have received little public attention in recent years, they do enter into discussions of the Program. Sometimes these discussions fall victim to significant mistakes or mischaracterizations of the food stamp error rates. To understand the error rates properly, several points should be kept in mind.

### **What the New Food Stamp Error Rates Show**

- X USDA actually issues three separate payment error rates: the overpayment error rate, the underpayment error rate, and the combined payment error rate. The overpayment error rate counts benefits issued to *ineligible* households as well as benefits issued to *eligible* households in excess of what federal rules provide. The underpayment error rate measures errors in which eligible, participating households received fewer benefits than the Program’s rules direct. The combined payment error rate is the result of summing (rather than netting) the overpayment and underpayment error rates.

Thus, for example, a state with a seven percent overpayment error rate and a two percent underpayment error rate would be reported as having a combined error rate of nine percent. The net loss to the federal government, however, from the errors in that state’s program (*i.e.*, the benefits lost through overpayments minus those saved by underpayments) would be only five percent.<sup>2</sup>

As noted above, even this measure overstates the cost of errors to the Program. If it were possible to quantify the amount of benefits eligible households lost due to improper denials and terminations, the net loss to the program would be less. Indeed, it is possible that the combined savings from underpayments and improper denials is greater than the loss resulting from overpayments of benefits. The media often pay the most attention to the combined error rate, presenting it as a reflection of the dimension of excessive federal expenditures due to errors. This is incorrect since the combined error rate includes underpayments that save the Program money.

- X For fiscal year 2002 USDA is imposing fiscal sanctions on states whose combined error rates exceeds the national average, even though overall state performance has improved for four consecutive years. This year, eight of the twenty states sanctioned improved their combined error rates from 2001 levels. An additional three of the states subject to sanction exceed the national average by less than one percentage point. Many of these states would not have been subject to sanction in other years when the national average

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<sup>1</sup> For 2002 USDA did not release a national average for such “negative action” errors, but did publish them for each state. The approximation of a national average of eight percent is based on weighting the state error rates by the level of issuance of food stamp benefits in the state. While not precisely correct, this method closely approximates the national average in earlier years.

<sup>2</sup> To be sure, these savings are not sought or desired by either federal or state agencies. But in calculating the net cost to the federal government of errors, or the difference between the actual cost of the Program and what it would cost in the absence of errors, the value of benefits not provided due to underpayments must be subtracted.

happened to be higher. Delaware and Indiana, for example, are in sanction this year but would not have been last year with the same combined payment error rate.

- X The decrease in error rates has been widespread. In 2002 ten states achieved their lowest combined payment error rates on record. Forty-two states have lower error rates in 2002 than they did in 1998 (a year when error rates peaked due in part to the complexity of implementing changes from the 1996 welfare law). Eleven of the 17 states that had combined payment error rates above the national average in 2001 improved their error rates in 2002.
- The dollar amount of most errors is quite small. A recent USDA study found that the overwhelming majority of food stamp overpayments went to eligible households and left the recipient households still well below the poverty line. It found that only two percent of recipient households are completely ineligible for food stamps and that only two percent of food stamp benefits are incorrectly issued to these ineligible households. In other words, 98 percent of food stamps are issued to eligible households. The study also found that the average overpayment raised the combined value of the household's income and food stamps from 79 percent of the poverty line to 85 percent of the poverty line. (In 2003, 85 percent of poverty for a household of three is \$1,064 a month or \$12,800 a year.)

### **The Difference between Overpayments and Fraud**

Relatively few of these errors represent dishonesty or fraud on the part of recipients (e.g., recipients intentionally lying to eligibility workers to get more food stamps). By its very nature, fraud is difficult to measure accurately. The overwhelming majority of food stamp errors, however, appear to result from honest mistakes by recipients, eligibility workers, data entry clerks, or computer programmers. In recent years, states have reported that half of all overpayments and two-thirds of underpayments were their fault. Most others resulted from innocent errors by households.<sup>3</sup> The Food Stamp Program has numerous anti-fraud measures in place, including sophisticated computer "matching" efforts to detect unreported earnings and assets, extensive requirements that households applying for or seeking to continue receiving food stamps prove their eligibility, and administrative and criminal enforcement mechanisms.

It also should be noted that an overpayment is counted in a state's error rate *whether or not the overpaid benefits are collected back from households*. In fiscal year 2001, states collected over \$200 million in overissued benefits. New collection techniques, such as intercepting wage earners' income tax refunds, are expected to increase collections further.

In addition, the error rates measure the accuracy with which benefits are issued, not whether food stamps are redeemed or spent properly. Evidence from USDA research suggests that a very small fraction of food stamp benefits are improperly traded for cash, or "trafficked." In 1998, USDA found that only three-and-a-half cents of every dollar issued in food stamps was trafficked. This has likely fallen to an even smaller proportion of benefits as the use of electronic benefit transfer (or EBT) — or providing food stamps on cards that can be swiped at stores like credit or debit cards — has expanded since 1998 to become virtually nationwide. One of the benefits of providing food stamp benefits through EBT is that it reduces the risks of trafficking by providing an electronic record of every transaction.

### **What Factors Contributed to States' Error Rates**

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<sup>3</sup> In fiscal year 2001, over 90 percent of all overpayments states established were classified as non-fraud. Some of these were innocent errors by households; others were mistakes the states themselves made.

Although this latest release does not include information on the sources of errors, trends seen in prior years likely continued. A number of offsetting factors contribute to states' error rates in recent years.

- **The Economy.** Since the beginning of the current economic downturn in March 2001, food stamp caseloads nationally have increased by 22 percent. Some of the states with the steepest increases in unemployment have also seen the largest increases in the number of people who receive food stamps. For example, food stamp caseloads have increased over the last two years by 48 percent in Oregon where the unemployment rate has increased significantly over the last two years to become among the highest in the country. This is a strong indication that the Food Stamp Program is working — that it is responding to increases in need as unemployment rises. These caseload increases are occurring, however, at the same time that states are facing very large budget gaps. Many are cutting back or freezing the number of eligibility workers who make food stamp eligibility determinations. (Although food stamp benefits are 100 percent federally-funded, states provide about half of the administrative costs for determining eligibility and issuing benefits.) The state budget crisis also can make it difficult for states to invest in computer upgrades, staff training, or other administrative activities that could help them improve their error rates.

In earlier recessions error rates have risen modestly when food stamp caseloads have increased. For example, between 1991 and 1993 when food stamp caseloads grew by 22 percent the combined payment error rate went from 9.3 percent to 10.31 percent. The fact that caseloads have been increasing and states have been under budget pressures makes the decline in error rates over the past few years even more remarkable.

- **Increased share of working families receiving food stamps.** Families' movement from welfare to work also has tended to increase error rates. Households containing wage-earners historically have had higher error rates than those that rely solely on public assistance, SSI or Social Security. This is because many low-wage workers experience fluctuations in their earnings because of changing jobs or being asked to work a different number of hours week-to-week or month-to-month. If eligibility workers fail to adjust their benefit levels correctly each time, an over- or underpayment is likely to result. By contrast, welfare payments typically come in the same amount each month. (Moreover, since the state initiates any changes, it can plan for them in calculating recipients' food stamp allotments.) Between 1990 and 2000 the proportion of food stamp households with children that work rose from a quarter to almost half, while the share of food stamp families with cash welfare and no earnings fell from almost 60 percent to 32 percent. The larger numbers of food stamp recipients that have been able to find work has likely increased in both the over- and underpayment error rates above the levels that would otherwise have prevailed. The fact that error rates are nonetheless declining means that improved state management and other factors have likely been in play to help offset this trend in the composition of food stamp households.

X **Focus on cash assistance.** In the late 1990s many states opted to concentrate their local offices' staffs' efforts on moving cash assistance recipients from welfare to work. To allow their staffs to monitor closely the efforts of families being asked to move from welfare to work, many states substantially reduced the caseloads of those staff assigned to their TANF-funded programs. In some instances, this left eligibility workers responsible for food stamps with larger and less manageable caseloads.

- **Changes in law or policy.** In the late 1990s, a significant part of states' overpayments resulted from states' difficulties in implementing complex provisions of the 1996 welfare law, notably the provision denying food stamp eligibility to the majority of legal immigrants. On the other hand, changes that the Administration has made in policy and state

options to simplify certain procedures in the delivery of food stamp benefits that were enacted in the 2002 farm bill — such as simplified rules regarding what changes in circumstances clients must report in between visits to the welfare office and options to streamline what counts toward the income and asset limits — have likely had a significant role in helping to reduce errors in recent years.

## **The Recent Changes to the Quality Control System**

Prior to the 2002 reauthorization of the food stamp program, a consensus emerged among states, advocacy groups, USDA, and other policy makers that the food stamp QC system exerted an inappropriate influence on state policy. As noted, the prior system (which remained in effect for the 2002 error rates) subjected states with combined payment error rates above the national average to sanction. This set up half the states to be viewed as failures each year. As a result of this QC sanction system, states with high or rising error rates were under strong pressure from USDA to adopt policies that improve their error rates. State officials, governors, and state legislatures take these sanctions very seriously. Receiving a fiscal sanction can be perceived as a serious negative reflection on the state's performance, even when the performance may be only modestly worse than average.

Some approaches that states may employ to reduce overpayments — improved staff training, giving eligibility workers more manageable caseloads, combating staff turnover, centralized change reporting functions, simplifying and better explaining households' reporting obligations, etc. — also are likely to reduce underpayments and to improve needy families' access to nutrition assistance. Other approaches, however, such as requiring working recipients to take time off work more frequently to come into the food stamp office for interviews, and increasing the amount of documentation a household must provide to verify their income and other circumstances, can have the effect of driving eligible families away from food stamps at the very time they may need these benefits to support their transition from welfare to work. This may have the effect of reducing states' error rates by reducing participation by working poor families (a group with an above-average error rate). Unfortunately, it also undercuts efforts to make work more attractive than welfare and is likely to cause hardship for the families affected.

As a result of these concerns, the nutrition title of the 2002 farm bill included a major reform to the food stamp QC system's sanction rules. While retaining the program's strong commitment to payment accuracy, the new system will focus penalties on the few states with consistently high error rates. From a management perspective, this revised QC sanction system provides USDA with a broader range of options for how they respond to various payment accuracy concerns and how they assist states in improving their performance. USDA is now better equipped to provide different interventions for different types of states as opposed to having only the blunt legal requirement to sanction *all* states with measured error rates above the national average each year, regardless of the cause.

States that have chronic, long-term, excessive payment accuracy problems will still be subject to financial penalties and the new rules actually increase the likelihood that such states will pay fiscal penalties. However, many states experience short-term problems when, for example, they implement new computer systems, they implement a complex change in policy, or when their caseloads increase because of a downturn in the economy. In these states, it is counterproductive to take away resources at the very time that the state needs more resources to cope with the problem. Under the new system, states with short-term error rate problems will have time to work to correct the problems before they are faced with a fiscal penalty.

Specifically, a state will be subject to fiscal sanction if, with statistical certainty, its combined payment error rate exceeds 105 percent of the national average for two consecutive years. The new rules will go into effect beginning with the 2003 error rates, which will be released next summer. If the new rules had been in effect for 2002 error rates, instead of 20 states being subject to fiscal sanctions, only a handful of states would have received a fiscal penalty. In the future USDA will be able to focus energy on these states that have chronic problems. Another group of states — those that exceeded the

threshold for the first year — would have been given notice that their error rates are high and that they are likely to be sanctioned the following year unless they take immediate corrective action. And every state with a combined payment error rate above six percent would be required to work with USDA to develop a corrective action plan to improve performance in future years.

The new QC system also includes new performance bonuses that reward exemplary achievements in payment accuracy and service to eligible households. Specifically, beginning in 2003, in addition awarding bonus funds to states that achieve low or improved error rates, USDA will also reward states with high or improved rates of serving eligible households and in doing so in a timely manner.

FOOD STAMP PROGRAM FY 2002 ERROR RATES, POTENTIAL & ADJUSTED LIABILITIES & ENHANCED FUNDING 1/							
STATE	FY 2002 OVER- PAYMENTS	FY 2002 UNDER- PAYMENTS	FY 2002 PAYMENT ERROR RATE	FY 2002 VAL. NEGATIVE ERROR RATE	POTENTIAL LIABILITIES	ADJUSTED LIABILITIES	2/ ENHANCED FUNDING
CONNECTICUT	8.74	2.96	11.70	6.67	\$2,088,755	\$2,088,755	
MAINE	4.19	2.07	6.26	4.50			
MASSACHUSETTS	6.28	2.11	8.40	5.33	\$4,965	None	
NEW HAMPSHIRE	10.56	1.46	12.03	1.48	\$596,340	\$596,340	
NEW YORK	5.33	2.41	7.75	24.53			
RHODE ISLAND	7.58	2.63	10.21	6.52	\$295,805	\$295,805	
VERMONT	6.83	0.85	7.68	10.18			
DELAWARE	5.23	3.24	8.46	8.37	\$1,903	\$5	
DIST. OF COL.	6.62	2.14	8.75	21.23	\$21,995	\$21,995	
MARYLAND	6.05	2.75	8.80	14.58	\$75,968	\$75,968	
NEW JERSEY	3.20	0.87	4.08	4.99			\$14,452,563
PENNSYLVANIA	7.54	1.95	9.49	4.60	\$1,282,737	\$1,282,737	
VIRGINIA	4.82	1.92	6.74	9.12			
VIRGIN ISLANDS	4.16	1.55	5.72	1.26			\$124,640
WEST VIRGINIA	5.47	1.66	7.13	6.38			
ALABAMA	7.57	1.16	8.74	8.34	\$116,421	\$2,476	
FLORIDA	7.42	2.19	9.61	9.63	\$1,938,237	\$1,715,327	
GEORGIA	5.59	1.14	6.73	7.95			
KENTUCKY	6.27	1.44	7.71	4.64			
MISSISSIPPI	3.50	0.89	4.39	2.80			\$4,898,620
NORTH CAROLINA	3.59	1.11	4.70	1.40			\$10,122,355
SOUTH CAROLINA	4.18	0.23	4.40	0.83			\$4,865,345
TENNESSEE	6.06	0.97	7.02	8.24			
ILLINOIS	7.32	1.42	8.75	10.60	\$268,385	\$206,682	
INDIANA	5.90	2.40	8.31	3.57	\$1,235	\$1,235	
MICHIGAN	9.54	4.56	14.10	14.92	\$26,614,639	\$24,734,986	
MINNESOTA	4.51	1.22	5.73	2.21			\$1,423,066
OHIO	4.51	1.99	6.50	6.95			
WISCONSIN	9.19	3.49	12.69	10.30	\$4,688,357	\$3,486,101	
ARKANSAS	3.53	0.75	4.29	1.98			\$3,967,618
LOUISIANA	3.88	1.90	5.78	2.90			\$1,443,356
NEW MEXICO	5.54	1.17	6.71	1.13			
OKLAHOMA	6.10	1.84	7.94	3.59			
TEXAS	3.47	1.38	4.85	2.38			\$29,136,689
COLORADO	7.23	2.43	9.66	22.73	\$392,575	\$303,024	
IOWA	4.79	1.65	6.44	4.76			
KANSAS	8.95	2.75	11.70	3.11	\$1,622,778	\$1,493,379	
MISSOURI	7.88	1.89	9.77	9.90	\$1,316,424	\$1,299,046	
MONTANA	6.53	1.64	8.18	1.69			
NEBRASKA	5.20	1.82	7.02	0.79			
NORTH DAKOTA	3.99	2.14	6.14	4.17			
SOUTH DAKOTA	1.73	0.39	2.12	0.32			\$728,325
UTAH	4.88	1.72	6.60	7.57			
WYOMING	2.84	0.45	3.29	1.69			\$750,857
ALASKA	8.23	2.76	10.99	7.44	\$536,453	\$246,349	
ARIZONA	3.86	1.41	5.27	7.58			\$3,841,799
CALIFORNIA	10.15	4.69	14.84	10.01	\$88,888,311	\$62,556,295	
GUAM	4.14	1.91	6.05	17.76			
HAWAII	3.67	1.36	5.03	2.80			\$1,476,790
IDAHO	5.66	3.39	9.04	5.25	\$45,677	\$368	
NEVADA	6.43	1.15	7.59	6.42			
OREGON	8.40	2.66	11.07	3.18	\$3,053,879	\$2,475,599	
WASHINGTON	5.96	2.20	8.16	12.23			
TOTAL	6.16	2.10	8.26	N/A	\$133,851,839	\$102,882,471	\$77,232,022
1/ Based on data available as of 6/19/03 . Due to rounding the payment error rate may not always equal the sum of the overpayment and underpayment error rate.							
2/ Amount of liabilities adjusted to take into account the effect of high proportions of earners and immigrants in States' caseloads.							
Effective Date: 6/19/03							
File:I:\Data\Shared\QCB\Excel\ Sanction and Incentive Calculations\FY02 Sanctions & Incentives\ FY 2002- Official Chart #1							